

Message Text

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INFO OCT-01 EA-09 IO-13 ISO-00 AID-05 CIAE-00 COME-00

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PASS TREASURY, FEDERAL RESERVE, COMMERCE

E. O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 22823, AUGUST 5, 1976

1. SUMMARY--

RECENT INDICATIONS GIVE CREDENCE TO THE LESS
THAN OPTIMISTIC ECONOMIC PROSPECTS FOR THE REMAINDER
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OF THE YEAR. THE PLUSES--A SMALL INCREASE IN

INDUSTRIAL PRODUCTION, A SLIGHT DECREASE IN UNEMPLOYMENT, AND SATISFACTORY ACTIVITY IN THE WHOLESALE AND RETAIL SECTORS--APPEAR TO BE OUTWEIGHED BY THE MINUSES--A LARGE DETERIORATION IN THE TRADE DEFICIT FOR JULY, HIGH INCREASES IN HOURLY WAGES FOR THE FIRST HALF OF THE YEAR AND A DECREASE IN BOND AND STOCK ISSUES.

2. SIZABLE INCREASE IN ENERGY IMPORTS RESULTS IN
LARGE DETERIORATION IN JULY TRADE DEFICIT--

A 27 PERCENT INCREASE IN ENERGY IMPORTS BETWEEN JUNE AND JULY WAS THE MAJOR FACTOR CONTRIBUTING TO 1,707 MILLION FRANCS JULY TRADE DEFICIT ON A SEASONALLY ADJUSTED BASIS, THE LARGEST SINCE AUGUST 1974. IMPORTS WERE 24,654 MILLION FRANCS (5.8 PERCENT INCREASE OVER JUNE) WHILE EXPORTS WERE 22,947 MILLION FRANCS (1.1 PERCENT DECREASE). IF ENERGY PRODUCTS ARE EXCLUDED, IMPORTS ROSE BY ONLY 1.5 PERCENT DURING JULY, DOWN FROM THE 2.6 AVERAGE MONTHLY RATE OF INCREASE FOR THE FIRST HALF OF THIS YEAR. TOTAL TRADE DEFICIT FOR THE FIRST SEVEN MONTHS OF 1976 WAS 4,920 MILLION FRANCS.

MAJOR FACTORS RESPONSIBLE FOR THE LARGE INCREASE IN ENERGY IMPORTS WERE (1) THE OVERALL UPSWING IN ACTIVITY LED TO A RECONSTITUTION OF STOCKS OF ENERGY PRODUCTS; (2) HYDROELECTRIC PRODUCTION WAS REDUCED AS A RESULT OF THE DROUGHT; (3) THERE WAS A STRONG DEMAND FOR FUEL ON THE PART OF HOUSEHOLDS, POSSIBLY OUT OF FEAR OF FURTHER INCREASES IN RATES; (4) GASOLINE CONSUMPTION HAS SHOWN A STRONG INCREASE THIS SUMMER. THE RECENT DEPRECIATION OF THE FRANC DID NOT AFFECT THE COST OF ENERGY PRODUCTS IN JULY SINCE ALMOST ALL OF THESE PURCHASES HAD BEEN PAID FOR ONE OR TWO MONTHS PREVIOUSLY. HOWEVER, THE FRANC'S RECENT DEPRECIATION SHOULD PUSH UP THE COST OF ENERGY IMPORTS DURING AUGUST.

3. SMALL DECREASE IN NUMBER OF UNEMPLOYED IN JULY--
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THE NUMBER OF UNEMPLOYED (SEASONALLY ADJUSTED) DECREASED BY 1.7 PERCENT IN JULY TO 950,000 FROM 966,700 IN JUNE. UNFILLED JOB OFFERS DECREASED BY 3.5 PERCENT TO 133,900 AT THE END OF JULY. OUR ESTIMATE OF THE SEASONALLY ADJUSTED UNEMPLOYMENT RATE IS 4.3 PERCENT (SEE PARIS A-322 OF 1975 FOR METHODOLOGY).

LABOR MARKET INDICATORS

(SEASONALLY ADJUSTED; IN THOUSANDS, END OF MONTH)

	FEB.	MAR.	APR.	MAY	JUN	JUL
REGISTERED	925.0	951.7	944.0	961.1	966.7	950.0
UNEMPLOYED						
UNFILLED JOB OFFERS	110.1	121.9	129.4	134.4	138.7	133.9
UNEMPLOYED AS PERCENT OF LABOR FORCE						
(ESTIMATE)	4.2	4.3	4.3	4.3	4.4	4.3

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4. SEASONALLY ADJUSTED MONEY SUPPLY INCREASES
BY 0.8 PERCENT IN MAY--

THE SEASONALLY ADJUSTED MONEY SUPPLY (M2)
INCREASED TO 808.0 BILLION FRANCS, A 0.8 PERCENT
INCREASE OVER APRIL AND A 20.4 PERCENT INCREASE
OVER MAY 1975. M1 WAS 425.0 BILLION FRANCS (0.2
PERCENT DECREASE FROM APRIL) AND NEAR MONIES
WERE 379.5 BILLION FRANCS (1.6 PERCENT INCREASE).
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5. HOURLY WAGES MAINTAIN STRONG INCREASE DURING
SECOND QUARTER--

WORKERS' HOURLY WAGES INCREASED BY 4.3 PERCENT
IN THE SECOND QUARTER OF THIS YEAR AS COMPARED TO
4.1 PERCENT FOR THE FIRST QUARTER. THE INCREASE
IN PURCHASING POWER FOR THE FIRST SIX MONTHS WAS
3.4 PERCENT. THE SECOND QUARTER'S INCREASE CAN BE
EXPLAINED IN PART BY THE 6.2 PERCENT INCREASE IN THE
MINIMUM WAGE (SALAIRE MINIMUM DE CROISSANCE) IN JULY
AND BY THE APRIL INCREASE OF THE LOWEST LEVEL OF WAGES
IN THE BUILDING SECTOR.

AS IN THE PAST TWO YEARS, THE INCREASE IN WAGES
SHOULD PROBABLY SLOW DOWN IN THE SECOND HALF OF THIS
YEAR. TAKING ACCOUNT OF THE INCREASE OF RETAIL
PRICES, THE S.M.I.C. MAY NOT BE RAISED AGAIN BEFORE
THE BEGINNING OF OCTOBER. HOWEVER, ACCOUNT MUST
ALSO BE TAKEN OF THE INCREASE OF THE FLOOR WAGES
IN THE BUILDING SECTOR WHICH ENVISIONS A TOTAL INCREASE
OF 20 PERCENT BETWEEN DECEMBER 1975 AND THE END OF
NOVEMBER 1976, THUS INVOLVING A FURTHER INCREASE OF
9 PERCENT FOR THE REMAINDER OF THIS YEAR. FURTHER-
MORE, INFLATION-INDEXED SALARIES WILL CONTINUE TO
RISE WITH FURTHER PRICE INCREASES. THEREFORE,
UNLESS GOF IS SUCCESSFUL IN ITS ATTEMPTS THIS FALL
TO WIN VOLUNTARY MODERATION OF WAGE INCREASES, IT
WOULD NOT BE AT ALL UNLIKELY THAT NOMINAL
WAGES WOULD INCREASE BY ABOUT 15 PERCENT FOR THE
ENTIRE YEAR.

6. INDUSTRIAL PRODUCTION REGISTERS SMALL
INCREASE IN JUNE--

INDUSTRIAL PRODUCTION INCREASED BY 0.8 PERCENT
IN JUNE, 9.0 PERCENT FOR YEAR ENDING IN JUNE.
PROVISIONAL INDEX OF INDUSTRIAL PRODUCTION (SEASONALLY
ADJUSTED, 1970 100) INCREASED FROM 121 IN MAY TO 122
IN JUNE.

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INDUSTRIES PRODUCING ENERGY PRODUCTS, CONSUMPTION
GOODS AND INTERMEDIATE GOODS REGISTERED INCREASES FOR
JUNE OF 1.8, 1.5 AND 2.7 PERCENT RESPECTIVELY. CAPITAL
GOODS SHOWED A 3.5 PERCENT DECREASE FROM MAY.

THESE FIGURES MUST BE TREATED AS BEING VERY
PROVISIONAL. AS AN INDICATION OF HOW PROVISIONAL
THEY ARE, INSEE HAS REVISED THE MAY INDEX FOR CAPITAL
GOODS, RESULTING IN A 0.7 PERCENT INCREASE OVER APRIL
RATHER THAN 1.5 PERCENT DECREASE AS REPORTED IN PARIS
21443.

7. RECENT SALES IN WHOLESALE AND RETAIL TRADE
SECTORS CONSIDERED SATISFACTORY BUT PROSPECTS
ARE LESS CONFIDENT--

ACCORDING TO THE BI-MONTHLY INSEE SURVEY OF
WHOLESALE AND RETAIL TRADE, ACTIVITY IN BOTH SECTORS
WAS CONSIDERED SATISFACTORY IN MAY AND JUNE. SALES
IN THE RETAIL SECTOR HAD STRENGTHENED FROM THE FIRST
FOUR MONTHS OF THE YEAR ALTHOUGH THEY WERE LOWER THAN
THE LEVEL REACHED IN THE LAST QUARTER OF 1975. SALES
IN THE WHOLESALE SECTOR, ALTHOUGH SATISFACTORY, WERE
LOWER THAN IN THE MARCH-APRIL PERIOD.

SALES IN THE WHOLESALE SECTOR WERE STRONGEST
FOR FOOD PRODUCTS. SALES OF INDUSTRIAL CONSUMPTION
GOODS ALSO REMAINED STRONG, ALTHOUGH SLIGHTLY LOWER
THAN IN THE PREVIOUS PERIOD. SALES OF CAPITAL GOODS
HAVE CONTINUED TO WEAKEN SINCE LAST NOVEMBER-DECEMBER.
FOR INTERMEDIATE GOODS THERE WAS A STRONG DECREASE IN
SALES, A REVERSAL WHICH HAD NOT BEEN EVIDENT IN THE

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PREVIOUS SURVEY. FOR THE WHOLESALE SECTOR AS A WHOLE, STOCKS REMAINED AVERAGE, ALTHOUGH THERE APPEARED TO HAVE BEEN A LARGE INCREASE IN STOCKS IN THE CAPITAL GOODS SECTOR. ALTHOUGH THE RESPONDENTS HAD BEEN INCREASINGLY OPTIMISTIC IN THEIR ASSESSMENT OF ECONOMIC PROSPECTS THROUGH MAY, THEY SHOWED THEMSELVES TO BE LESS CONFIDENT IN THE JULY SURVEY, WHICH IS ALSO SHOWN BY A GENERAL WEAKENING IN THEIR INTENTIONS TO ORDER.

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ALTHOUGH SALES INCREASED IN THE MAY-JUNE PERIOD IN THE RETAIL SECTOR, STOCKS SHOWED A LIGHT DECREASE.

IN THE INSEE INTERPRETATION, STOCKS APPEARED TO BE LOWER THAN NORMAL. THE GENERAL CLIMATE IN THE RETAIL SECTOR ALSO APPEARS TO BE SLIGHTLY LESS CONFIDENT THAN IT WAS AT THE BEGINNING OF THE YEAR.

8. STOCK AND BOND ISSUES DECREASE IN FIRST HALF OF YEAR--

THE TOTAL AMOUNT OF STOCKS AND BONDS ISSUED IN FRANCE DURING THE FIRST HALF OF 1976 WAS 28.62 BILLION FRANCS, 5.2 PERCENT BELOW THE LEVEL OF 30.18 BILLION FOR THE CORRESPONDING PERIOD LAST YEAR. THE SLOWDOWN IN THE ISSUE OF STOCKS AND BONDS OCCURRED DURING THE SECOND QUARTER WHEN TOTAL ISSUES WERE 27.4 PERCENT LESS THAN THE SECOND QUARTER OF 1975, AS COMPARED TO THE FIRST QUARTER WHEN TOTAL ISSUES WERE 28.2 PERCENT HIGHER THAN IN THE SAME PERIOD OF LAST YEAR.

...WHILE HOUSEHOLD SAVINGS ACCOUNTS SHOW LARGE INCREASE LAST YEAR

THE DECREASE IN SAVINGS FUNNELED THROUGH THE FINANCIAL MARKETS DURING THE FIRST HALF OF THIS YEAR WAS IN SHARP CONTRAST TO THE VERY LARGE INCREASE IN MORE LIQUID SAVINGS LAST YEAR. THE TOTAL AMOUNT OF HOUSEHOLD SAVINGS DEPOSITS LAST YEAR WAS 57,104 BILLION FRANCS, A 39.25 PERCENT INCREASE OVER THE PREVIOUS YEAR.

9. RESTRICTIONS ON INVESTMENTS ABROAD RELAXED--

THE MINIMUM LEVEL AT WHICH A FRENCH INVESTMENT ABROAD MUST BE SUBJECT TO PRIOR GOVERNMENT APPROVAL HAS BEEN INCREASED FROM ONE TO THREE MILLION FRANCS PER YEAR.

10. OTHER REPORTS SUBMITTED DURING THE PERIOD--

TELEGRAMS
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PARIS

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23463 PARIS FOREX MARKET 8/12
23415 VISIT OF VIRGINIA STATE HOUSING OFFICIAL 8/12
23364 PEPPERIS HOTEL RESERVATIONS 8/11
23363 ZAIRE DEBT RESCHEDULING 8/11
23362 PARIS FOREX MARKET 8/11
23063 PARIS FOREX MARKET 8/9
22891 PARIS FOREX MARKET 8/6

AIRGRAMS

PARIS

A-351 FRENCH FOREIGN EXCHANGE HOLDINGS 8/16
A-341 FRENCH FOREIGN EXCHANGE HOLDINGS 8/6
A-339 TRADE WITH SOVIET BLOC, ALBANIA, 8/6
CHINA, NORTH KOREA, NORTH VIETNAM,
OUTER MONGOLIA AND CUBA
A-338 TRADE WITH COMMUNIST AREAS 8/5
STATISTICS FOR MONTH JUNE 1976
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